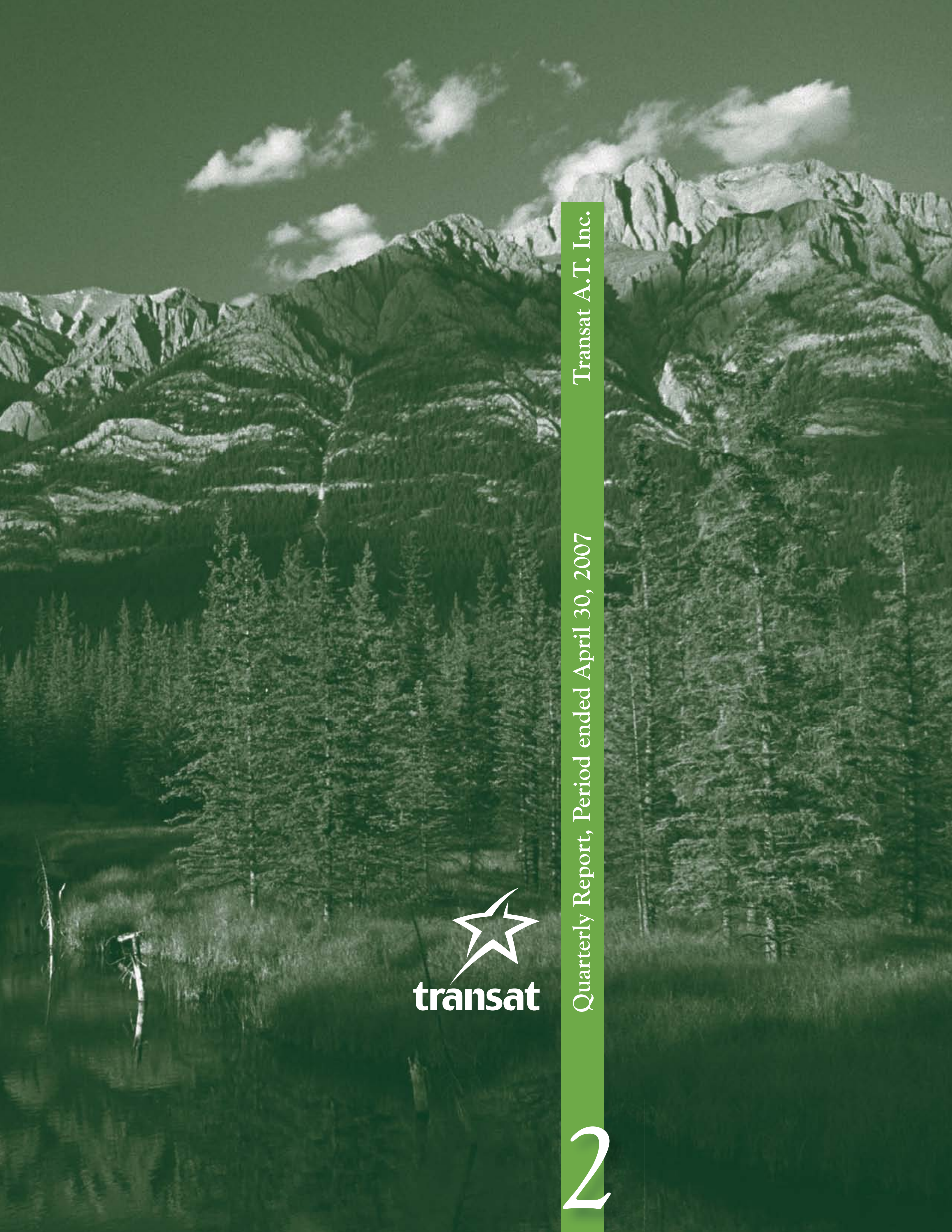

Transat A.T. Inc.

Quarterly Report, Period ended April 30, 2007

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This Management's Discussion and Analysis ("MD&A") provides a review of Transat A.T. Inc's operations, performance and financial position for the quarter and six-month period ended April 30, 2007 compared with the quarter and six-month period ended April 30, 2006 and should be read in conjunction with the unaudited consolidated interim financial statements for the second quarter of 2007 and 2006, the notes thereto and the 2006 Annual Report including the MD&A and the section on risks and uncertainties. The purpose of this document is to provide a second quarter update to the information contained in the MD&A section of our 2006 Annual Report. The risks and uncertainties set out in the MD&A of the 2006 Annual Report are herein incorporated by reference and remain substantially unchanged. The information contained herein is dated as of June 6, 2007. You will find more information about us on Transat's website at www.transat.com and on SEDAR at www.sedar.com, including the Attest Reports for the quarter ended April 30, 2007 and Annual Information Form for the year ended October 31, 2006.

We prepare our financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). We will occasionally refer to non-GAAP financial measures in the MD&A. These non-GAAP financial measures have no meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures reported by other issuers. They are furnished to provide additional information and should not be considered as a substitute for measures of performance prepared in accordance with GAAP. All dollar figures are in Canadian dollars unless otherwise indicated. The terms "Transat," "we," "us," "our" and the "Corporation" mean Transat A.T. Inc. and its subsidiaries, unless otherwise indicated.

Caution regarding forward-looking statements

This MD&A contains certain forward-looking statements with respect to the Corporation. These forward-looking statements are identified by the use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "potential", "predict", "project", "will", "would", the negative of these terms and similar terminology, including references to assumptions. All such statements are made pursuant to applicable Canadian securities legislation. Such statements may involve but are not limited to comments with respect to strategies, expectations, planned operations or future actions.

Forward-looking statements, by their nature, necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by these forward-looking statements. Results indicated in forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, war, terrorist attacks, energy prices, general industry, market and economic conditions, disease outbreaks, changes in demand due to the seasonal nature of the business, the ability to reduce operating costs and employee counts, employee relations, labour negotiations and disputes, pension issues, currency exchange and interest rates, changes in laws, adverse regulatory developments or proceedings, pending litigation and actions by third parties and other risks detailed from time to time in the Corporation's continuous disclosure documents.

The reader is cautioned that the foregoing list of factors is not exhaustive of the factors that may affect any of the Corporation's forward-looking statements. The reader is also cautioned to consider these and other factors carefully and not to put undue reliance on forward-looking statements.

The Corporation made a number of assumptions in making forward-looking statements in this MD&A such as certain economic assumptions, market assumptions, operational and financial assumptions and assumptions about transactions and forward-looking statements.

Examples of such forward-looking statements include, but are not limited to, statements concerning:

- *The Corporation's expectation that travel reservations will continue to be higher than the prior year.*
- *The Corporation's expectation that cash flow from operations, existing funds and borrowings under credit facilities will be sufficient to support ongoing working capital requirements.*

In making these statements, the Corporation has assumed that the trends in reservations will continue throughout the remainder of the season, that the Corporation cannot predict the impact of future energy prices and foreign exchange rates on its financial results, that credit facilities will continue to be made available as in the past, that management continues to manage cash flow fluctuations to fund working capital requirements for the full year. If these assumptions prove incorrect, actual results and developments may differ materially from those contemplated by the forward-looking statements contained in this MD&A.

The Corporation considers the assumptions on which these forward-looking statements are based to be reasonable.

These statements reflect current expectations regarding future events and operating performance and speak only as of the date of release of this MD&A and represent the Corporation's expectations as of that date. The Corporation disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required by law.

Financial Highlights

Three-month and six-month periods ended April 30 [In thousands of dollars]

	Three (3) months 2007 $	2006 $	Variance $	Variance %	Six (6) months 2007 $	2006 $	Variance $	Variance %
Consolidated Statements of Income								
Revenues	**911,400**	791,569	119,831	15.1	**1,623,737**	1,373,145	250,592	18.2
Margin[1]	**63,219**	68,487	(5,268)	(7.7)	**87,893**	82,517	5,376	6.5
Net income	**53,944**	42,845	11,099	25.9	**56,076**	48,013	8,063	16.8
Earnings per share – Basic	**1.59**	1.27	0.32	25.2	**1.66**	1.33	0.33	24.8
Earnings per share – Diluted	**1.58**	1.24	0.34	27.4	**1.64**	1.31	0.33	25.2
Dividends declared and paid per share	**0.09**	—	0.09	n/a	**0.16**	—	0.16	n/a
Consolidated Statements of Cash Flows								
Operating activities	**41,737**	17,360	24,377	140.4	**144,594**	82,478	62,116	75.3

	As at April 30, 2007	As at October 31, 2006	Variance $	Variance %
Consolidated Balance Sheets				
Cash and cash equivalents	**355,931**	214,887	141,044	65.6
Cash and cash equivalents in trust or otherwise reserved	**171,956**	203,613	(31,657)	(15.5)
	527,887	418,500	109,387	26.1
Total assets	**1,118,635**	959,195	159,440	16.6
Debt (short-term and long-term)	**83,237**	87,404	(4,167)	(4.8)
Total debt[1]	**362,659**	407,741	(45,082)	(11.1)
Net debt[1]	**6,728**	192,854	(186,126)	(96.5)

[1]NON-GAAP FINANCIAL MEASURES

The terms margin, operating cash flows, total debt and net debt have no standard definition prescribed by Canadian GAAP and are therefore unlikely to be comparable to similar measures reported by other issuers. However, these terms are presented on a consistent basis from period to period. These terms are included because management uses them to measure Transat's financial performance.

Margin is used by management to assess Transat's ongoing and recurring operational performance. This term is represented by revenues less operating expenses, according to the unaudited Consolidated Statements of Income.

Operating cash flows are used by management to assess Transat's operating performance and its capacity to meet its financial obligations. Operating cash flows is defined as cash flows from operating activities excluding the net change in non-cash working capital balances related to operations, net change in other liabilities and net change in deposits, expenses and provision for engine and airframe overhaul, according to the Consolidated Statements of Cash Flows.

Total debt is used by management to assess Transat's future cash requirements. It is represented by the combination of balance sheet debt (long-term debt and debentures) and off-balance sheet arrangements presented on p. 11.

Net debt is used by management to assess its cash position. It corresponds to the total debt (described above) less cash and cash equivalents not held in trust or otherwise reserved.

Transat is one of the largest fully integrated world-class tour operators in North America. We conduct our activities in a single industry (holiday travel) and we mainly market our products in two geographic areas (North America and Europe). Transat's core business involves developing and marketing vacation travel services in package and air-only format, including airline seats. We operate as both an outgoing and incoming tour operator by bundling services bought in Canada and abroad and reselling them in Canada, France, the U.K. and elsewhere, mainly through travel agencies, some of which we own. Transat is also a major retail distributor with a total of approximately 500 travel agencies and a multi-channel distribution system that incorporates Web-based sales. Transat leverages on its subsidiary Air Transat, Canada's largest international charter air carrier, to meet a substantial portion of its airline seat needs. We also offer destination, hotel management and airport services.

The international tourism market is growing, and international tourists have increasingly varied origin markets and travel destinations. Transat's vision is to maximize shareholder value by entering new markets, increasing our market share and maximizing the benefits of vertical integration. We maintain a leadership position in the Canadian market, where we operate as an outgoing and incoming tour operator and as the country's leading charter airline. We are also a well-established outgoing tour operator in France and the U.K. and incoming tour operator in Greece. We offer our customers a broad range of international destinations spanning some 60 countries. Over time, we want to expand our business into other countries where we believe there is high growth potential for an integrated player specializing in holiday travel, namely the United States and additional European countries.

Our three-year strategic plan (2006-2008) focuses on growth and profitability. We anticipate that increased international tourism will speed our growth in North America and Europe. To this end, we will be making new acquisitions while pursuing an intensive pace of internal growth. Our key strategic focuses are as follows:

- In Canada, bolster our presence in Ontario by adding new destinations and expanding our distribution network.
- In Europe, grow our market share and continue our vertical integration in France and the U.K. while moving forward to expand into other European countries as a tour operator specializing in travel to Canada, as well as other destinations.
- Invest in new markets and, in particular, become a tour operator in the U.S.
- Step up development of destination services and assume a portion of our accommodation needs.
- Pursue our ongoing technology and training initiatives and investments.

Our objectives for fiscal 2007:

- Enhance our competitiveness in Canada.
- Become more competitive and accelerate our growth in Europe.
- Tap into new outgoing markets.
- Further capitalize on vertical integration at destination.
- Implement a knowledge management culture complete with the necessary processes to support our growth and continuity.
- Develop and implement an integrated information management infrastructure that supports development and actively contributes to profitable growth.

The key performance drivers are market share, revenue growth and margin. They are essential to the successful implementation of our strategy and to the achievement of our objectives.

Our ability to deliver on our objectives is dependent on our financial and non-financial resources, both of which have contributed to the success of our strategies and the achievement of our objectives in the past. Our financial resources consist primarily of cash. Our non-financial resources include our brand, structure, employees and relationships with suppliers.

Quarter ended April 30, 2007 compared with the quarter ended April 30, 2006

Revenues

Three months [In thousands of dollars]

2007 $	2006 $	Variance $	Variance %
911,400	791,569	119,831	15.1

Six months [In thousands of dollars]

2007 $	2006 $	Variance $	Variance %
1,623,737	1,373,145	250,592	18.2

We draw our revenues from outgoing tour operators, air transportation, travel agencies, distribution, incoming tour operators and services at travel destinations.

During the current quarter and the six-month period, our revenues increased by $119.8 million and $250.6 million, respectively, compared with the corresponding periods in 2006. The overall increase in our revenues was driven by revenue growth in North America of 13.1% for the quarter and 16.7% for the six-month period, and by higher revenues in Europe, up 26.3% for the quarter and 27.8% for the six-month period. These increases were primarily due to expanded business activity, particularly in North America, and in part to acquisitions in fiscal 2006. Compared with the previous year, total travellers grew by 11.4% for the quarter and 13.7% for the six-month period. This increase was segmented as follows: North America – 10.5% for the quarter and 13.2% for the six-month period, and Europe – 18.1% for the quarter and 17.0% for the six-month period. In 2006, the start of the season was affected by the aftermath of Hurricane Wilma.

Operating expenses

Our operating expenses consist mainly of direct costs, salaries and employee benefits, aircraft fuel, aircraft maintenance, commissions, airport and navigation fees, and aircraft rent.

Overall, operating expenses rose $125.1 million for the current quarter and $245.2 million for the six-month period in 2007 compared with the corresponding periods in 2006. These increases were attributable to a 15.5% rise in our operating expenses in North America for the quarter and 17.6% rise for the six-month period as well as increases in Europe of 26.3% for the quarter and 26.8% for the six-month period.

Operating expenses

For the periods ended April 30 [In thousands of dollars]	Three (3) months 2007 $	2006 $	Variance $	Variance %	Six (6) months 2007 $	2006 $	Variance $	Variance %
Direct costs	**503,798**	421,286	82,512	19.6	**885,845**	728,702	157,143	21.6
Salaries and employee benefits	**80,411**	70,914	9,497	13.4	**159,063**	134,115	24,948	18.6
Aircraft fuel	**67,534**	56,027	11,507	20.5	**123,216**	102,474	20,742	20.2
Commissions	**66,249**	60,447	5,802	9.6	**117,467**	106,151	11,316	10.7
Aircraft maintenance	**25,303**	23,018	2,285	9.9	**47,075**	42,373	4,702	11.1
Airport and navigation	**20,501**	18,153	2,348	12.9	**38,422**	33,104	5,318	16.1
Aircraft rent	**12,157**	12,131	26	0.2	**24,137**	24,446	(309)	(1.3)
Other	**72,228**	61,106	11,122	18.2	**140,619**	119,263	21,356	17.9
	848,181	723,082	125,099	17.3	**1,535,844**	1,290,628	245,216	19.0

Direct costs include the costs of the various trip components sold to consumers via travel agencies and incurred by our tour operators. They also include hotel room costs and the costs of reserving blocks of seats or full flights with air carriers other than Air Transat. During the quarter ended April 30, 2007, these costs accounted for 55.3% of our revenues, up from 53.2% for the same period in 2006. For the six-month period, these costs accounted for 54.6% of our revenues, up 53.1% compared with 2006. In comparison with the corresponding periods of the previous year, direct costs were up 19.6% for the second quarter and 21.6% for the first half of the year. Both for the quarter and the six-month period, the dollar amount increases resulted primarily from expanded business activity and higher seat costs, caused in part by rising fuel costs, higher hotel room costs and the euro's strength against the dollar.

Salaries and employee benefits were up 13.4% for the quarter and 18.6% for the six-month period compared with 2006, due in part to our business acquisitions since November 1, 2005 and increased business activity.

Aircraft fuel expense was up 20.5% for the quarter and 20.2% for the six-month period. These increases arose from greater business activity, addition of one aircraft to the fleet in 2006 and another in the second quarter of 2007, and higher fuel prices.

Commissions include the fees paid by tour operators to travel agencies for serving as intermediaries between tour operators and consumers. Total commissions were up $5.8 million in the second quarter of 2007 and $11.3 million in the first half of the year compared with the corresponding periods of 2006. During the three-month period ended April 30, 2007, our commission expense represented 7.3% of our revenues compared with 7.6% for the same period in 2006, whereas it accounted for 7.2% of our revenues for the six-month period compared with 7.7% for the comparable period in 2006. These decreases were partially attributable to synergies resulting from the expansion of our travel agency network following acquisitions in fiscal 2006.

Aircraft maintenance costs relate mainly to the engine and airframe maintenance expenses incurred by Air Transat. These costs grew 9.9% during the quarter and 11.1% during the six-month period compared with the same periods in 2006. These increases were mainly due to stepped-up business activity and the addition of an aircraft to our fleet compared with the same periods in 2006.

Airport and navigation fees relate mainly to fees charged by airports. The increases of 12.9% for the quarter and 16.1% for the six-month period in relation to the corresponding periods of the previous year resulted from expanded business activity.

Aircraft rentals remained relatively steady during the quarter and six-month period. This was primarily due to the strength of the Canadian dollar against its U.S. counterpart, the effect of which was partially offset, however, by rental costs related to the aircraft added to the fleet in 2006.

Other expenses were up 18.2% during the three-month period ended April 30, 2007 and 17.9% for the six-month period then ended compared with the corresponding periods of 2006. These increases were primarily due to increased business activity. However, as a percentage of revenues, other expenses edged slightly higher for the quarter, increasing from 7.7% in 2006 to 7.9% in 2007, whereas they held steady during the six-month period at 8.7%.

Margin

In light of the foregoing, our margins expressed as a percentage of revenues fell to 6.9% in 2007 from 8.7% in 2006 for the quarter and to 5.4% in 2007 from 6.0% in 2006 for the six-month period. The narrowing of our margins was also due to what continues to be fierce competition in various markets and the resulting lower prices for consumers, as well as to higher fuel costs.

Geographic Areas — North America

For the periods ended April 30 [In thousands of dollars]	Three (3) months 2007 $	2006 $	Variance $	Variance %	Six (6) months 2007 $	2006 $	Variance $	Variance %
Revenues	**755,202**	667,852	87,350	13.1	**1,375,092**	1,178,532	196,560	16.7
Operating expenses	**697,662**	603,885	93,777	15.5	**1,285,771**	1,093,342	192,429	17.6
Margin	**57,540**	63,967	(6,427)	(10.0)	**89,321**	85,190	4,131	4.8

In North America, revenue growth for the quarter and six-month period resulted mainly from increases in total travellers of 10.5% and 13.2%, respectively. Throughout the first six months of the year, competition continued to put downward pressure on our selling prices mainly in Québec. As expected, our efforts to increase our market share in Ontario, which have been successful, resulted in higher revenues and lower margins. Overall, margins decreased from 9.6% in 2006 to 7.6% in 2007 for the quarter, and from 7.2% in 2006 to 6.5% in 2007 for the six-month period.

Geographic Areas — Europe

For the periods ended April 30 [In thousands of dollars]	Three (3) months 2007 $	2006 $	Variance $	Variance %	Six (6) months 2007 $	2006 $	Variance $	Variance %
Revenues	**156,198**	123,717	32,481	26.3	**248,645**	194,613	54,032	27.8
Operating expenses	**150,519**	119,197	31,322	26.3	**250,073**	197,286	52,787	26.8
Margin	**5,679**	4,520	1,159	25.6	**(1,428)**	(2,673)	1,245	46.6

In Europe, revenues increased compared with the corresponding quarter and six-month period in 2006. These increases stem primarily from greater business activity and the euro's strength against the dollar. Total travellers were up 18.1% during the quarter and 17.0% over the six-month period compared with the corresponding periods of 2006. During the six-month period, our tour operators, particularly Look Voyages, saw sales of their products (packages) increase.

In terms of margins, our European operations posted a $5.7 million (3.6%) margin during the quarter compared with our $4.5 million (3.7%) margin in 2006. For the first six months of 2007, we reported a negative margin of $1.4 million compared with a negative margin of $2.7 million in 2006. As expected, Canadian Affair reported a negative margin, due to the seasonal nature of its business, and that most of its revenues are generated in the summer. During the first six months, our operations in France have generated better margins compared to 2006.

Other expenses and revenues

Amortization is calculated on property, plant and equipment, intangible assets subject to amortization, deferred lease inducements and other assets, consisting mainly of development costs. Amortization expense rose by $1.3 million (14.1%) during the quarter to $10.7 million in 2007 from $9.4 million in 2006. For the six-month period, amortization was up $2.6 million to $21.3 million. These increases were attributable to additions to property, plant and equipment as well as business acquisitions during fiscal 2006.

Interest on long-term debt and debentures held steady during the quarter. For the six-month period, interest amounted to $3.6 million, up $0.2 million compared with the corresponding period of 2006 due to higher interest rates.

Our other interest and financial expenses remained relatively stable during both the second quarter and the first half of the year compared with the corresponding periods of the previous year.

Interest income grew $1.7 million (48.2%) for the quarter ended April 30, 2007 compared with the corresponding period of 2006. For the six-month period, interest income was up $2.9 million (42.5%). These increases resulted from higher rates of return following interest rate hikes and higher average cash balances compared with 2006 levels.

Subsequent to the adoption on November 1, 2006 of new accounting standards and the discontinuation of hedge accounting for its derivative financial instruments used for aircraft fuel purchases, the Corporation recorded an unrealized gain on derivative financial instruments recognized at fair value amounting to $18.8 million for the quarter and $9.0 million for the six-month period. This represents the change over the periods in the fair value of the derivative financial instruments used by the Corporation to manage risks related to fuel price instability.

Foreign exchange gains on long-term monetary items amounting to $2.1 million for the quarter and $0.5 million for the six-month period resulted mainly from the favourable effect of foreign exchange rates on our long-term debt.

Our share of net income of companies subject to significant influence rose slightly over the quarter and the six-month period compared with the corresponding periods of the previous year.

Other expenses and revenues

For the periods ended April 30 [In thousands of dollars]	Three (3) months				Six (6) months			
	2007 $	2006 $	Variance $	Variance %	2007 $	2006 $	Variance $	Variance %
Amortization	**10,717**	9,389	1,328	14.1	**21,264**	18,659	2,605	14.0
Interest on long-term debt and debentures	**1,803**	1,728	75	4.3	**3,574**	3,334	240	7.2
Other interest and financial expenses	**588**	409	179	43.8	**899**	806	93	11.5
Interest income	**(5,171)**	(3,489)	1,682	48.2	**(9,843)**	(6,909)	2,934	42.5
Unrealized gain on derivative financial instruments used for aircraft fuel purchases	**(18,756)**	—	18,756	n/a	**(9,040)**	—	9,040	n/a
Foreign exchange loss (gain) on long-term monetary items	**(2,066)**	(1,562)	504	32.3	**(447)**	(3,922)	(3,475)	(88.6)
Share of net income of companies subject to significant influence	**(352)**	(140)	212	151.4	**(554)**	(335)	219	65.4

Income taxes

Our income tax expense amounted to $22.4 million for the quarter ended April 30, 2007 compared with $19.3 million for the corresponding quarter of the preceding fiscal year. Excluding our share of net income of companies subject to significant influence, the effective tax rates were 29.4% for the quarter ended April 30, 2007 and 31.1% for the quarter ended April 30, 2006.

For the six-month period ended April 30, 2007, our income tax expense amounted to $25.8 million compared with $23.1 million for the corresponding six-month period of the preceding fiscal year. Excluding our share of net income of companies subject to significant influence, the effective tax rates were 31.7% for the current six-month period and 32.7% for the corresponding six-month period of 2006.

Net income

As a result of the items discussed in the "Consolidated operations," our net income for the quarter ended April 30, 2007 amounted to $53.9 million, or $1.59 per share, compared with $42.8 million, or $1.27 per share during the corresponding quarter of the previous year. The weighted average numbers of shares outstanding used to establish the per share amounts were 33,867,000 for the second quarter of 2007 and 33,746,000 for the second quarter of the preceding year.

For the first half of the year, net income stood at $56.1 million, or $1.66 per share in 2007, compared with net income totalling $48.0 million, or $1.33 per share in 2006. The weighted average numbers of shares outstanding used to establish the per share amounts were 33,811,000 in 2007 and 36,011,000 in 2006.

On a diluted per share basis, earnings per share amounted to $1.58 for the second quarter of 2007 compared with $1.24 in 2006; and $1.64 for the first half of 2007 compared with $1.31 in 2006. The adjusted weighted average numbers used in computing these amounts were 34,221,000 (second quarter of 2007), 34,536,000 (second quarter of 2006), 34,301,000 (first half of 2007) and 36,802,000 (first half of 2006).

See note 4 to the unaudited Consolidated Interim Financial Statements.

Selected quarterly financial information

The Corporation's operations are seasonal in nature; consequently, interim operating results do not proportionately reflect the operating results for a full year. Overall, revenues are up (compared with the corresponding quarters of previous years) mainly as a result of growth in total travellers and acquisitions since fiscal 2005. From a margin perspective, there have been fluctuations during each quarter, owing primarily to competition that exerted pressure on prices, and to sharply higher fuel prices since 2005. In light of the foregoing, the following quarterly financial information may therefore vary significantly from quarter to quarter.

Selected quarterly financial information

(In thousands of dollars, except per share amounts)

	2005		2006				2007	
	Q3	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**
Revenues	552,897	493,900	581,576	791,569	611,107	619,494	712,337	911,400
Margin	17,214	23,380	14,030	68,487	15,606	28,821	24,674	63,219
Net income	794	18,022	5,168	42,845	4,205	13,552	2,132	53,944
Earnings per share								
Basic	0.02	0.45	0.14	1.27	0.12	0.40	0.06	1.59
Diluted	0.02	0.44	0.13	1.24	0.12	0.39	0.06	1.58

As at April 30, 2007, cash and cash equivalents totalled $355.9 million compared with $214.9 million as at October 31, 2006. Cash and cash equivalents in trust or otherwise reserved amounted to $172.0 million at the end of the second quarter of 2007 compared with $203.6 million as at October 31, 2006. Our balance sheet reflects a current ratio of 1.2 and working capital of $113.8 million compared with a ratio of 1.2 and working capital of $97.6 million as at October 31, 2006. With regard to our French operations, we also have access to unused lines of credit totalling 6.7 million ($10.1 million).

Total assets amounted to $1,118.6 million as at April 30, 2007, up $159.4 million (16.6%) from $959.2 million as at October 31, 2006. This increase was mainly due to greater business activity which in turn resulted in a $109.4 million increase in cash and cash equivalents, including cash and cash equivalents in trust or otherwise reserved, and a $37.7 million increase in accounts receivable. Shareholders' equity amounted to $329.6 million as at April 30, 2007, up $33.6 million from $296.0 million as at October 31, 2006. This growth arose primarily from the net income realized during the period, the rise in our share capital and decrease in cumulative other comprehensive income.

Operating activities

During the second quarter, operating activities generated cash flows amounting to $41.7 million compared with $17.4 million for the corresponding quarter of 2006. For the six-month period, cash flows generated by operating activities stood at $144.6 million compared with $82.5 million for the same period in 2006. These increases were mainly due to a positive net change in working capital balances related to operations amounting to $30.1 million for the quarter and $59.7 million for the six-month period compared with the corresponding periods of 2006. For the quarter, this net change resulted from more favourable changes in prepaid expenses and customer deposits and deferred revenues in 2007 than in 2006. For the six-month period, the net change in working capital balances related to operations was due to a favourable change in customer deposits and deferred revenues, which was offset by an unfavourable change in accounts receivable compared with 2006.

Investing activities

Cash flows generated by investing activities totalled $81.3 million for the quarter, up $23.2 million compared with the corresponding quarter of 2006, primarily as a result of the net change in cash and cash equivalents in trust or otherwise reserved. For the six-month period, cash flows generated by investing activities amounted to $14.7 million, down $15.6 million from $30.3 million in 2006. This decrease was attributable to a rise in net change in cash and cash equivalents in trust or otherwise reserved and additions to property, plant and equipment in 2007. These acquisitions consist mainly in computer hardware and software and aircraft enhancements.

Cash flows

For the periods ended April 30 [In thousands of dollars]	Three (3) months			Six (6) months		
	2007 **$**	2006 $	Variance $	**2007** **$**	2006 $	Variance $
Cash flows – operating activities	**41,737**	17,360	24,377	**144,594**	82,478	62,116
Cash flows – investing activities	**81,275**	58,078	23,197	**14,653**	30,271	(15,618)
Cash flows – financing activities	**(11,443)**	(1,880)	(9,563)	**(16,390)**	(138,006)	121,616
Effect of exchange rate changes on cash and cash equivalents	**2,199**	(649)	2,848	**(1,813)**	36	(1,849)
Net change in cash and cash equivalents	**113,768**	72,909	40,859	**141,044**	(25,221)	166,265

Financing activities

During the quarter, cash flows used from financing activities totalled $11.4 million, up $9.6 million compared with the corresponding quarter of 2006. This increase resulted from the lack of share repurchases and dividend payments for the corresponding quarter of 2006, whereas in the current quarter, the Corporation repurchased shares totalling $9.2 million and dividend payments amounting to $3.1 million. For the first six months of 2007, financing activities used $16.4 million, down $121.6 million from $138.0 million in 2006. This decline resulted primarily from the January 3, 2006 share repurchase that gave rise to a $125.0 million disbursement.

Off-balance sheet arrangements

In the normal course of business, Transat enters into arrangements and incurs obligations that will impact the Corporation's future operations and liquidity, some of which give rise to liabilities in the unaudited Consolidated Interim Financial Statements as at April 30, 2007. These obligations amounted to $83.2 million as at April 30, 2007 and $87.4 million as at October 31, 2006. Obligations that are not reflected as liabilities are considered off-balance sheet arrangements. These contractual arrangements are entered into with non-consolidated entities and are made up of:

- Guarantees
- Operating leases

Off-balance sheet debt, excluding agreements with service providers, that can be estimated amounted to approximately $279.4 million as at April 30, 2007 compared with $320.3 million as at October 31, 2006, down $40.9 million. This decline resulted mainly from recurring repayments in respect of our commitments.

Off-balance sheet debt, excluding agreements with service providers, is detailed as follows:

	As at April 30, 2007 $	As at October 31, 2006 $
Guarantees		
Irrevocable letters of credit	**6,798**	5,751
Security contracts	**780**	780
Operating leases		
Commitments under operating leases	**271,844**	313,806
	279,422	320,337

In the normal course of business, guarantees are required in the travel industry to provide indemnifications and guarantees to counterparties in transactions such as operating leases, irrevocable letters of credit and security contracts. Historically, Transat has not made any significant payments under such guarantees. Operating leases are entered into to enable the Corporation to lease certain items rather than acquire them.

We believe that the Corporation will be able to meet its obligations with existing funds, operating cash flows and borrowings under existing credit facilities.

Debt levels

As at April 30, 2007, debt levels were lower compared with October 31, 2006.

Balance sheet debt was down $4.2 million from $87.4 million to $83.2 million, and our off-balance sheet debt was down $45.1 million from $320.3 million to $279.4 million, resulting in a total decline in debt of $45.1 million compared with October 31, 2006. The decrease in our balance sheet debt was mainly due to repayments during the period.

Net of cash and cash equivalents, the Corporation's net debt fell 96.5% from $192.9 million as at October 31, 2006 to $6.7 million as at April 30, 2007. This decline resulted mainly from a higher balance of cash and cash equivalents as at April 30, 2007 than as at October 31, 2006 and debt repayments.

Outstanding shares

As at April 30, 2007, there are three authorized classes of shares: an unlimited number of Class A Variable Voting Shares, an unlimited number of Class B Voting Shares and an unlimited number of preferred shares. The preferred shares are non-voting and issuable in series, with each series including the number of shares, designation, rights, privileges, restrictions and conditions as determined by the Board of Directors.

In accordance with its issuer bid renewed on June 15, 2006, the Corporation repurchased, during the six-month period ended April 30, 2007, a total of 382,100 voting shares, consisting of Class A Variable Voting Shares and Class B Voting Shares, for a cash consideration of $12.1 million.

As at April 30, 2007 there were 2,190,389 Class A Variable Voting Shares outstanding and 31,687,093 Class B Voting Shares outstanding.

Dividends

During the six-month period ended April 30, 2007, the Corporation declared and paid dividends totalling $5.4 million, including $3.1 million in the second quarter.

New accounting standards

On November 1, 2006, the Corporation adopted the recommendations of the following Sections of the Canadian Institute of Chartered Accountants Handbook: Section 1530, Comprehensive Income, Section 3855, Financial Instruments – Recognition and Measurement, and Section 3865, Hedges. These standards set out, among other things, at what point a financial instrument must be recognized in the balance sheet and in what amount, in addition to specifying the basis of presentation for the gains and losses on the financial instruments. Based on their classification in the balance sheet, the gains and losses on the financial instruments are recognized in the statement of income or in the newly introduced financial statement, the statement of comprehensive income.

Following the adoption of these new standards, the Corporation opted to cease the use of hedge accounting for its derivative financial instruments for its aircraft fuel purchases. The adoption of these new standards translated, as at November 1, 2006, into a $12.4 million decrease in accumulated other comprehensive income, a $3.5 million increase in financial instruments reported under assets, a $6.1 million increase in future income tax assets, a $21.6 million increase in financial instruments reported under liabilities and a $0.4 million increase in long-term debt. The adoption of these standards had no impact on the Corporation's cash flows but increased net income and net earnings per share for the three-month period ended April 30, 2007 by $12.6 million and $0.37, respectively, and increased net income and net earnings per share for the six-month period ended April 30, 2007 by $6.1 million and $0.18, respectively.

The Corporation refers the reader to note 2 to the Consolidated Interim Financial Statements for the second quarter, ended April 30, 2007, for further details regarding the adoption of these standards.

Subsequent events

On May 1, 2007, the Corporation made a €1.3 million ($1.9 million) cash payment to acquire the balance of the shares (30%) of Air Consultants Europe B.V. (ACE) that it did not already own.

At the beginning of the third quarter, the Corporation's subsidiary Transat Tours Canada and tour operator MyTravel, which does business in Canada under the Sunquest Vacations brand, signed a 3-year commercial agreement which define the terms on the sale to each other of airline seats to sun destinations, starting on November 1st, 2007. The agreement sets the conditions at which Sunquest Vacations could purchase approximately 120,000 seats on flights chartered by Transat Tours Canada (operating under the Transat Holidays and Nolitours brands), and at which Transat Tours Canada could purchase approximately 120,000 seats on flights chartered by Sunquest Vacations, for the 2007-2008 winter season. The agreement should allow the Corporation to optimize the utilization of its wide-body aircraft on the sun destinations market and supplements Transat Tours Canada's agreement with WestJet.

Controls and procedures

In accordance with the Canadian Securities Administrators Multilateral Instrument 52-109, the Corporation has filed certificates signed by the President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer that, among other things, report on the design of disclosure controls and procedures and the design of internal control over financial reporting.

Internal control over financial reporting ("ICFR") is designed to provide reasonable assurance regarding the reliability of the Corporation's financial reporting and its compliance with Canadian GAAP in its financial statements. The President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer of the Corporation have evaluated whether there were changes to its ICFR during the three-month period ended April 30, 2007 that have materially affected, or are reasonably likely to materially affect, the ICFR. No such significant changes were identified through their evaluation.

Outlook

The Corporation expects demand for the third quarter to be higher than in 2006. However, in light of heightened competition and market capacity, we anticipate narrower margins for the summer season primarily due the flights to the United Kingdom.

In Europe, bookings for the third quarter are tracking ahead of their 2006 levels, and we expect a positive margin for the summer season.

Notice

The Corporation's independent auditors have not performed a review of these financial statements in accordance with the Canadian Institute of Chartered Accountants standards for a review of interim financial statements by the entity's auditors.

CONSOLIDATED BALANCE SHEETS

(in thousands of dollars) (Unaudited)

	As at April 30, 2007 $	As at October 31, 2006 $
ASSETS		
Current assets		
Cash and cash equivalents	**355,931**	214,887
Cash and cash equivalents in trust or otherwise *[note 3]*	**171,956**	203,613
Accounts receivable	**125,704**	87,996
Future income tax assets	**6,126**	1,357
Inventories	**9,313**	8,312
Prepaid expenses	**45,789**	43,706
Derivative financial instruments *[note 2]*	**6,543**	—
Current portion of deposits	**27,509**	29,849
Total current assets	**748,871**	589,720
Deposits	**19,015**	19,350
Future income tax assets	**8,719**	7,120
Property, plant and equipment	**178,454**	181,349
Goodwill and other intangible assets	**155,547**	153,681
Derivative financial instruments *[note 2]*	**912**	—
Other assets	**7,117**	7,975
	1,118,635	959,195
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**255,500**	236,282
Income taxes payable	**5,654**	10,122
Customer deposits and deferred income	**311,009**	218,875
Derivative financial instruments *[note 2]*	**16,931**	—
Current portion of long-term debt	**26,018**	26,885
Total current liabilities	**615,112**	492,164
Long-term debt *[note 2]*	**54,063**	57,363
Debenture	**3,156**	3,156
Provision for engine and airframe overhaul in excess of deposits	**68,440**	64,961
Non-controlling interest and other liabilities	**31,963**	31,934
Derivative financial instruments *[note 2]*	**1,383**	—
Future income tax liabilities	**14,910**	13,654
	789,027	663,232
Shareholders' equity		
Share capital *[note 4]*	**155,836**	151,430
Retained earnings	**182,383**	142,116
Contributed surplus	**1,618**	1,379
Warrants *[note 4]*	**—**	1,016
Accumulated other comprehensive income *[notes 2 and 6]*	**(10,229)**	22
	329,608	295,963
	1,118,635	959,195

See accompanying notes to consolidated interim financial statements.

Consolidated statements of income

(in thousands of dollars, except per share amounts) (Unaudited)

	Three (3) months ended April 30		Six (6) months ended April 30	
	2007	2006	**2007**	2006
	$	$	**$**	$
REVENUES	**911,400**	791,569	**1,623,737**	1,373,145
Operating expenses				
Direct costs	**503,798**	421,286	**885,845**	728,702
Salaries and employee benefits	**80,411**	70,914	**159,063**	134,115
Aircraft fuel	**67,534**	56,027	**123,216**	102,474
Commissions	**66,249**	60,447	**117,467**	106,151
Aircraft maintenance	**25,303**	23,018	**47,075**	42,373
Airport and navigation fees	**20,501**	18,153	**38,422**	33,104
Aircraft rent	**12,157**	12,131	**24,137**	24,446
Other	**72,228**	61,106	**140,619**	119,263
	848,181	723,082	**1,535,844**	1,290,628
	63,219	68,487	**87,893**	82,517
Amortization	**10,717**	9,389	**21,264**	18,659
Interest on long-term debt and debentures	**1,803**	1,728	**3,574**	3,334
Other interest and financial expenses	**588**	409	**899**	806
Interest income	**(5,171)**	(3,489)	**(9,843)**	(6,909)
Unrealized gain on derivative financial instruments used for aircraft fuel purchases	**(18,756)**	—	**(9,040)**	—
Foreign exchange gain on long-term monetary items	**(2,066)**	(1,562)	**(447)**	(3,922)
Share of net income of companies subject to significant influence	**(352)**	(140)	**(554)**	(335)
	(13,237)	6,335	**5,853**	11,633
Income before the following items	**76,456**	62,152	**82,040**	70,884
Income taxes (recovery of)				
Current	**16,117**	21,142	**23,481**	25,608
Future	**6,293**	(1,879)	**2,327**	(2,532)
	22,410	19,263	**25,808**	23,076
Income before non-controlling interest in subsidiaries' results	**54,046**	42,889	**56,232**	47,808
Non-controlling interest in subsidiaries' results	**(102)**	(44)	**(156)**	205
Net Income for the period	**53,944**	42,845	**56,076**	48,013
Earnings per share *[note 4]*				
Basic	**1.59**	1.27	**1.66**	1.33
Diluted	**1.58**	1.24	**1.64**	1.31

Consolidated statements of retained earnings

Six (6) months ended April 30 (in thousands of dollars) (Unaudited)

	2007	2006
	$	$
Retained earnings beginning of period	**142,116**	183,718
Net income for the period	**56,076**	48,013
Premium paid on share repurchase *[note 4]*	**(10,375)**	(96,197)
Share repurchase costs net of related income taxes of $145	**—**	(308)
Dividends	**(5,434)**	—
Retained earnings end of period	**182,383**	135,226

Consolidated statements of comprehensive income

Six (6) months ended April 30 (in thousands of dollars) (Unaudited) *[notes 2 and 6]*

	2007	2006
	$	$
Net income for the period	**56,076**	48,013
Other comprehensive income		
Change in fair value of derivatives designated as cash flow hedges (net of income taxes of $4,166)	**(8,968)**	—
Losses on derivatives designated as cash flow hedges prior to November 1, 2006, transferred to net income in the current period (net of income taxes of $3,957)	**8,032**	—
Unrealized gains (losses) on translating financial statements of self-sustaining foreign operations	**3,120**	(128)
	2,184	(128)
Comprehensive income for the period	**58,260**	47,885

See accompanying notes to consolidated interim financial statements.

Consolidated statements of cash flows

(in thousands of dollars) (Unaudited)

	Three (3) months ended April 30		Six (6) months ended April 30	
	2007	2006	**2007**	2006
	$	$	**$**	$
OPERATING ACTIVITIES				
Net income for the period	**53,944**	42,845	**56,076**	48,013
Non cash items				
Amortization	**10,717**	9,389	**21,264**	18,659
Unrealized gain on derivative financial instruments used for aircraft fuel purchases	**(18,756)**	—	**(9,040)**	—
Foreign exchange gain on long term monetary items	**(2,066)**	(1,562)	**(447)**	(3,922)
Share of net income of companies subject to significant influence	**(352)**	(140)	**(554)**	(335)
Non-controlling interest in subsidiaries' results	**102**	44	**156**	(205)
Future income taxes	**6,293**	(1,879)	**2,327**	(2,532)
Pension expense	**625**	545	**1,250**	1,145
Compensation expense related to stock option plan	**272**	182	**543**	361
	50,779	49,424	**71,575**	61,184
Net change in non-cash working capital balances related to operations	**(9,048)**	(39,149)	**70,140**	10,464
Net change in other liabilities	**(1,141)**	139	**(600)**	250
Net change in deposits, expenses and provision for engine and airframe overhaul	**1,147**	6,946	**3,479**	10 580
Cash flows relating to operating activities	**41,737**	17,360	**144,594**	82 478
INVESTING ACTIVITIES				
Net change in deposits	**(209)**	37	**(581)**	(86)
Additions to property, plant and equipment	**(10,794)**	(6,814)	**(16,636)**	(9,679)
Net change in other assets	**395**	(558)	**213**	(887)
Consideration paid for acquired businesses	**—**	(233)	**—**	(4,790)
Net change in cash and cash equivalents in trust or otherwise reserved	**91,883**	65,646	**31,657**	45,713
Cash flows relating to investing activities	**81,275**	58,078	**14,653**	30,271
FINANCING ACTIVITIES				
Repayment of long-term debt	**(207)**	(2,267)	**(3,667)**	(3,132)
Repayment of debentures	**—**	—	**—**	(10,000)
Proceeds from issue of shares	**1,016**	387	**4,831**	579
Share repurchase	**(9,178)**	—	**(12,120)**	(125,000)
Share repurchase cost	**—**	—	**—**	(453)
Dividend paid	**(3,074)**	—	**(5,434)**	—
Cash flows relating to financing activities	**(11,443)**	(1,880)	**(16,390)**	(138,006)
Effect of exchange rate changes on cash and cash equivalents	**2,199**	(649)	**(1,813)**	36
Net change in cash and cash equivalents for the period	**113,768**	72,909	**141,044**	(25,221)
Cash and cash equivalents beginning of period	**242,163**	195,365	**214,887**	293,495
Cash and cash equivalents end of period	**355,931**	268,274	**355,931**	268,274

See accompanying notes to consolidated interim financial statements.

[The amounts are expressed in thousands, except for share capital, stock options, warrants and amounts per option or per share] [Unaudited]

Note 1: Basis of Presentation

The unaudited consolidated interim financial statements were prepared by the Corporation in accordance with Canadian generally accepted accounting principles applicable to interim financial statements and follow the same accounting policies and methods of their application as the most recent annual financial statements, except for the new accounting policies described in note 2. In the opinion of Management, all adjustments necessary for a fair presentation are reflected in the consolidated interim financial statements. Such adjustments are of a normal and recurring nature. The Corporation's operations are seasonal in nature; consequently, interim operating results do not necessarily proportionately reflect the operating results for a full year. The unaudited consolidated interim financial statements should be read in conjunction with the audited annual consolidated financial statements and notes thereto included in the Corporation's 2006 Annual Report. Certain comparative figures were reclassified to conform to the presentation adopted in the current year.

Note 2: New accounting policies

On November 1, 2006, the Corporation retroactively adopted, without restatement of prior periods, the recommendations included in the following Sections of the Canadian Institute of Chartered Accountants Handbook: Section 1530, Comprehensive Income, Section 3855, Financial Instruments – Recognition and Measurement, and Section 3865, Hedges.

Section 1530, Comprehensive Income, requires the presentation of comprehensive income and its components in a new financial statement. Comprehensive income is the change in the net assets of a company arising from transactions, events and circumstances not related to shareholders.

Section 3855, Financial Instruments – Recognition and Measurement, sets out the standards for the recognition and measurement of financial assets, financial liabilities and derivatives. This standard prescribes when to recognize a financial instrument in the balance sheet and at what amount. Depending on their balance sheet classification, fair value or cost-based measures are used. This standard also prescribes the basis of presentation for gains and losses on financial instruments. Based on financial instrument classification, gains and losses on financial instruments are recognized in net income or other comprehensive income.

The Corporation has made the following classification:

- Cash and cash equivalents, cash and cash equivalents in trust or otherwise reserved, as well as derivative financial instruments used to manage fuel price fluctuation risks are classified as "Assets held for trading." They are measured at fair value and the gains or losses resulting from the remeasurement at the end of each period are recognized in net income.
- Accounts receivable are classified as "Loans and receivables." They are recorded at cost, which upon their initial measurement is equal to their fair value. Subsequent measurements are recorded at amortized cost using the effective interest method.
- Bank loans, accounts payable and accrued liabilities, the debenture and long-term debt are classified as "Other financial liabilities." They are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest method.

Section 3865, *Hedges*, sets out standards specifying when and how an entity can use hedge accounting. The adoption of this new standard is optional. It offers entities the possibility of applying different reporting options than those set out in Section 3855, *Financial Instruments – Recognition and Measurement*, to qualifying transactions that they elect to designate as hedges for accounting purposes. The Corporation elected to apply hedge accounting for its foreign exchange forward contracts as cash flow hedges. These derivatives are measured at fair value at the end of each period and the gains or losses resulting from remeasurement are recognized in other comprehensive income when the hedge is deemed effective. Any ineffective portion is recognized in net income. In addition, the Corporation has designated certain foreign exchange forward contracts as fair value hedges. These derivatives are measured at fair value at the end of each period and the gains or losses resulting from the remeasurement are recognized in net income, with a corresponding adjustment to the carrying value of the hedged item through net income.

The Corporation also enters, in the normal course of its operations, into fuel purchasing contracts to manage fuel price fluctuation risks. For these derivatives, the Corporation elected to cease using hedge accounting. As a result, based on Section 3855, *Financial Instruments – Recognition and Measurement*, these derivatives are measured at fair value at the end of each period and the unrealized gains or losses resulting from remeasurement are disclosed in a separate item in the consolidated statement of income. On maturity of the contracts, realized gain or losses are recorded as aircraft fuel. Non realized gains or losses on the transition date were recognized in other comprehensive income and will be recognized in net income under aircraft fuel when the related fuel purchasing contracts will mature.

The adoption of these new standards translated into the following changes as at November 1, 2006: a $12,435 decrease in accumulated other comprehensive income, a $3,492 increase in derivative financial instruments reported under assets, a $6,125 increase in future income tax assets, a $21,632 increase in derivative financial instruments reported under liabilities and a $420 increase in long-term debt.

For the three-month and the six-month periods ended April 30, 2007, the Corporation recognized an unrealized loss of $20,990 (net of $10,088 in related income taxes) and of $8,968 (net of $4,166 in related income taxes) respectively, under Other comprehensive income representing the effective portion of the change in fair value of the derivatives designated as cash flow hedges. These amounts so recognized were reclassified under Operating expenses for the periods during which the operating expenses were affected by the variability in the hedged item's cash flows. For the three-month and the six-month periods ended April 30, 2007, gains amounting to $11,232 and $11,461 respectively were recorded under net income. An estimated loss of $11,932 included in Accumulated other comprehensive income as at April 30, 2007 should be reclassified under net income in the next twelve months.

For the three-month and the six-month periods ended April 30, 2007, the Corporation recognized a loss of $3,795 (net of $1,869 in related income taxes) and of $8,032 (net of $3,957 in related income taxes) respectively, under Other comprehensive income representing the portion of the non realized losses on fuel purchasing contracts at transition date realized during the period. Non realized losses of $6,501 included in Accumulated other comprehensive income as at April 30, 2007 should be reclassified into net income in the next twelve months.

The adoption of this new standard has no impact on the Corporation's cash flows. However, it had the effect of increasing net income and earnings per share by $12,566 and $0.37 respectively, for the three-month ended April 30, 2007, and of increasing net income and earnings per share of $6,057 and $0.18 respectively, for the six-month period ended at the same date.

Note 3: Cash and cash equivalents in trust or otherwise reserved

As at April 30, 2007, cash and cash equivalents in trust or otherwise reserved included $141,188 [$168,164 as at October 31, 2006] in funds received from customers for services not yet rendered and $30,768 [$35,499 as at October 31, 2006] was pledged as collateral security against letters of credit and foreign exchange forward contracts.

Note 4: Share Capital

a) Share capital

Authorized

Class A variable voting shares

An unlimited number of Class A Variable Voting Shares ["Class A Shares"], participating, which may be owned or controlled by non-Canadians as defined by the Canada Transportation Act ["CTA"], carrying one vote per Class A Share unless (i) the number of issued and outstanding Class A Shares exceeds 25% of the total number of all issued and outstanding voting shares (or any higher percentage that the Governor in Council may specify pursuant to the CTA); or (ii) the total number of votes cast by or on behalf of holders of Class A Shares at any meeting exceeds 25% (or any higher percentage that the Governor in Council may specify pursuant to the CTA) of the total number of votes that may be cast at such meeting.

If either of the above-noted thresholds is surpassed, the vote attached to each Class A Share will decrease automatically, without further act or formality. Under the circumstance described in subparagraph (i) above, the Class A Shares as a class cannot carry more than 25% (or any higher percentage that the Governor in Council may specify pursuant to the CTA) of the aggregate votes attached to all issued and outstanding voting shares of the Corporation. Under the circumstance described in subparagraph (ii) above, the Class A Shares as a class cannot, for a given shareholders' meeting, carry more than 25% (or any higher percentage that the Governor in Council may specify pursuant to the CTA) of the total number of votes that can be exercised at the said meeting.

Each issued and outstanding Class A Share shall be automatically converted into one Class B Voting Share without any further act on the part of the Corporation or of the holder if: (i) the Class A Share is or becomes owned and controlled by a Canadian as defined by the CTA; or (ii) the provisions contained in the CTA relating to foreign ownership restrictions are repealed and not replaced with other similar provisions.

Class B voting shares

An unlimited number of Class B Voting Shares ["Class B Shares"], participating, which may be owned and controlled by Canadians as defined by the CTA only and shall confer the right to one vote per Class B Share at all meetings of shareholders of the Corporation.

Each issued and outstanding Class B Share shall be converted into one Class A Share automatically without any further act on the part of the Corporation or the holder if the Class B Share is or becomes owned or controlled by a non-Canadian as defined by the CTA.

Preferred shares

An unlimited number of preferred shares, non-voting, issuable in series, each series bearing the number of shares, designation, rights, privileges, restrictions and conditions as determined by the Board of Directors.

Issued and outstanding

The changes affecting the Class A Shares and the Class B Shares were as follows:

Six (6) months ended April 30, 2007	Number of shares	Amount ($)
Balance as at October 31, 2006	33,647,597	151,430
Issued from treasury	16,908	485
Exercise of options	244,752	2,285
Exercise of warrants	350,325	3,381
Repurchase of shares	(382,100)	(1,745)
Balance as at April 30, 2007	33,877,482	155,836

As at April 30, 2007, the number of Class A Shares and Class B Shares amounted to 2,190,389 and 31,687,093 respectively.

Normal course issuer bid

In accordance with its normal course issuer bids, the Corporation repurchased, during the period ended April 30, 2007, a total of 382,100 voting shares, consisting of Class A Shares and Class B Shares, for a cash consideration of $12,120.

b) Options

	Number of shares	Weighted average price ($)
Balance as at October 31, 2006	710,462	14.07
Granted	2,000	27.41
Exercised	(244 752)	8,09
Balance as at April 30, 2007	467 710	17,27
Exercisable options as at April 30, 2007	249,649	13.93

c) Warrants

	Number of warrants	Amount ($)
Balance as at October 31, 2006	350,325	1,016
Exercised	(350,325)	(1,016)
Balance as at April 30, 2007	—	—

d) Earnings per share

Earnings per share and the diluted earnings per share were computed as follows:

[In thousands, except amounts per share]	Three (3) months ended April 30		Six (6) months ended April 30	
	2007 $	2006 $	**2007 $**	2006 $
Numerator				
Income attributable to voting shareholders	**53,944**	42,845	56,076	48,013
Interest on debentures that may be settled in voting shares	**31**	31	64	64
Income used to calculate diluted earnings per share	**53,975**	42,876	56,140	48,077
Denominator				
Weighted average number of outstanding shares	**33,867**	33,746	**33,811**	36,011
Debenture that may be settled in voting shares	**92**	149	**98**	159
Stock options	**262**	363	**291**	363
Warrants	**—**	278	**101**	269
Adjusted weighted average number of outstanding shares used in computing diluted earnings per share	**34,221**	34,536	**34,301**	36,802
Basic earnings per share	**1.59**	1.27	**1.66**	1.33
Diluted earnings per share	**1.58**	1.24	**1.64**	1.31

In computing diluted earnings per share for the three-month and the six-month periods ended April 30, 2006, a total of 137,383 stock options were excluded from the computation because the exercise price on these options exceeded the average price of the Corporation's shares for the respective periods.

Note 5: Business acquisitions

During the period ended April 30, 2006, the Corporation acquired several businesses. These acquisitions were recorded using the purchase method.

On December 1, 2005, the Corporation acquired the assets of twenty travel agencies in France from the Carlson Wagonlit Travel network, for a total consideration of €3,102 [$4,314]. As a result of these acquisitions, goodwill increased by $3,920. The results of these agencies were included in the Corporation's results as of January 1, 2006.

During the six-month period ended April 30, 2006, the Corporation, via Trip Central, acquired the assets of six travel agencies in Ontario for a total consideration of $1,096. On the dates of acquisition, a total amount of $338 was paid and the balance of $619 is payable over a three to five year period. As a result of these acquisitions, goodwill increased by $925. The results of these agencies were included in the Corporation's results as of the acquisition date.

Note 6: Accumulated other comprehensive income

Six (6) months ended April 30	2007 $	2006 $
Accumulated other comprehensive income		
Balance beginning of period	**22**	(2,591)
Cumulative impact of accounting changes relating to financial instruments *[note 2]*	**(12,435)**	—
Adjusted balance beginning of period	**(12,413)**	(2,591)
Other comprehensive income for the period	**2,184**	(128)
Balance end of period	**(10,229)**	(2,719)

The 2006 balance correspond to the reclassification of the Accumulated translation adjustments to the Accumulated other comprehensive income.

Note 7: Segmented Information

The Corporation has determined that it conducts its activities in a single industry segment, namely holiday travel. Therefore, the consolidated statements of income include all the required information. With respect to geographic areas, the Corporation operates mainly in North America and in Europe.

	Three (3) months ended April 30, 2007			Six (6) months ended April 30, 2007		
	North America $	Europe $	Total $	North America $	Europe $	Total $
Revenues	**755,202**	**156,198**	**911,400**	**1,375,092**	**248,645**	**1,623,737**
Operating expenses	**697,662**	**150,519**	**848,181**	**1,285,771**	**250,073**	**1,535,844**
	57,540	**5,679**	**63,219**	**89,321**	**(1,428)**	**87,893**
Property, plant and equipment, goodwill and other intangible assets[1]				**213,716**	**120,285**	**334,001**

	Three (3) months ended April 30, 2006			Six (6) months ended April 30, 2006		
	North America $	Europe $	Total $	North America $	Europe $	Total $
Revenues	667,852	123,717	791,569	1,178,532	194,613	1,373,145
Operating expenses	603,885	119,197	723,082	1,093,342	197,286	1,290,628
	63,967	4,520	68,487	85,190	(2,673)	82,517
Property, plant and equipment, goodwill and other intangible assets[2]				229,102	56,127	285,229

[1] As at April 30, 2007
[2] As at October 31, 2006

Note 8: Guarantees

In the normal course of business, the Corporation has entered into agreements that contain features which meet the definition of a guarantee. These agreements provide for indemnification and guarantees to counterparties in transactions such as operating leases, irrevocable letters of credit, and security contracts.

These agreements may require the Corporation to compensate the counterparties for costs and losses incurred as a result of various events including breaches of representations and warranties, loss of or damages to property, claims that may arise while providing services and environmental liabilities.

Notes 4, 9, 10, 11 and 21 to the 2006 audited consolidated financial statements provide information relating to some of these agreements. The following constitutes additional disclosure.

Operating leases

The Corporation's subsidiaries have general indemnity clauses in many of their airport and other real estate leases whereby they, as lessee, indemnify the lessor against liabilities related to the use of the leased property. These leases mature at various dates until 2034. The nature of the agreements varies based on the contracts and therefore prevents the Corporation from estimating the total potential amount its subsidiaries would have to pay to lessors. Historically, the Corporation's subsidiaries have not made any significant payments under such agreements and have liability insurance protecting them for the obligations undertaken.

Irrevocable letters of credit

The Corporation has entered into irrevocable letters of credit guarantees with some of its suppliers. The Corporation guarantees the payment of certain tourist services such as hotel rooms that it has undertaken to pay for whether it sells the services or not. These agreements, which are entered into for significant blocks of tourist services, typically cover a one year period and are renewed annually. The corporation has also issued letters of credit to provincial regulatory agencies in Ontario and British Columbia guaranteeing amounts to the Corporation's clients for the performance of its obligations. The amount guaranteed totals $6,798 as at April 30, 2007. Historically, the Corporation has not made any significant payments under such letters of credit.

Security contracts

The Corporation has entered into security contracts whereby it has guaranteed a prescribed amount to its clients at the request of regulatory agencies for the performance of the obligations given in mandates by its clients during the term of the licenses granted to the Corporation for its travel agent and wholesaler activities in the province of Quebec. These agreements typically cover a one-year period and are renewed annually. The amount guaranteed totals $780 as at April 30, 2007. Historically, the Corporation has not made any significant payments under such agreements.

As at April 30, 2007, no amounts have been accrued with respect to the above-mentioned agreements.

Note 9: Subsequent event

On May 1st, 2007, the company acquired the balance of the remaining shares [30%] of Air Consultants Europe B.V. (ACE) for a cash consideration of €1,264 [$1,911].

OUTGOING TOUR OPERATORS

Transat Tours Canada (TTC)

Transat Holidays
Caribbean, Latin America and Mexico from Canada, Canada-Europe market and cruises

Nolitours
Caribbean, Latin America, Mexico and Florida from Canada

Look Voyages
Mediterranean Basin, Africa, Asia, Caribbean, Mexico, etc. from France, and Lookéa clubs

Vacances Transat (France)
Americas, Caribbean, Asia, Africa from France.
Tours in Eastern Europe, Scandinavia, Scotland, Ireland under the Bennett brand

Brokair
Group tours from France

Canadian Affair
British tour operator specializing in travel to Canada

Rêvatours
Eastern Europe, Asia, North Africa, etc. from Canada

Merika Tours
North American destinations from Canada

Air Consultants Europe (ACE)
TTC's representative in Germany, the Netherlands, Belgium, Luxembourg and Austria

INCOMING TOUR OPERATORS AND DESTINATION SERVICES

Jonview Canada
Tours and packages to Canada

Tourgreece
Tours and packages to Greece

Trafic Tours
Excursions and destination services in Mexico

Turissimo
Excursions and destination services in the Dominican Republic

Transat Holidays USA
Destination services and travel agency in Florida

RETAIL DISTRIBUTION

Transat Distribution Canada
More than 400 travel agencies in Canada (Marlin Travel, TravelPlus, tripcentral.ca, Club Voyages, Voyages en Liberté) and exitnow.ca

Club Voyages (France)
Network of 72 travel agencies in France (Club Voyages, Look Voyages)

AIR TRANSPORTATION

Air Transat
Charter air carrier specializing in holiday travel

Handlex
Airport ground services in Montréal, Toronto and Vancouver

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CIBC Mellon Trust Company

Stock Exchange
The shares of the Corporation are listed on the Toronto Stock Exchange under the ticker symbols TRZ.A and TRZ.B